

Dove Academy of Detroit

Financial Report
with Supplemental Information
June 30, 2005

Dove Academy of Detroit

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-8
Basic Financial Statements	
Academy-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements - Governmental Fund:	
Balance Sheet	11
Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets	12
Statement of Revenue, Expenditures, and Changes in Fund Balance	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	14
Notes to Financial Statements	15-20
Required Supplemental Information	21
Budgetary Comparison Schedule - General Fund	22
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	23-24

Independent Auditor's Report

To the Board of Directors
Dove Academy of Detroit

We have audited the accompanying financial statements of the governmental activities and the major fund of Dove Academy of Detroit as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Dove Academy of Detroit's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of Dove Academy of Detroit as of June 30, 2005 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dove Academy of Detroit's basic financial statements. The accompanying required supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board. The required supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Directors
Dove Academy

In accordance with *Government Auditing Standards*, we have also issued a report dated August 12, 2005 on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

August 12, 2005

Dove Academy of Detroit

Management's Discussion and Analysis

This section of the Dove Academy of Detroit's annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Dove Academy of Detroit financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant fund - the General Fund.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements *Fund Financial Statements*

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

These two statements report the Academy's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results. However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, operations and maintenance, and community services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table I provides a summary of the Academy's net assets as of June 30, 2005 and 2004:

TABLE I

	Governmental Activities	
	2004	2005
	(in hundred thousands)	
Assets		
Current and other assets	\$ 5.9	\$ 6.9
Capital assets	0.1	0.1
Total assets	6.0	7.0
Liabilities - Current liabilities	5.3	6.0
Net Assets		
Invested in property and equipment - Net of related debt	0.1	0.1
Unrestricted	0.6	0.9
Total net assets	<u>\$ 0.7</u>	<u>\$ 1.0</u>

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were \$102,495 at June 30, 2005. Capital assets, net of related debt totaling \$7,317, compares the original cost less depreciation of the Academy's capital assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$95,178, was unrestricted.

The \$95,178 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2005 and 2004:

TABLE 2

	Governmental Activities	
	2004	2005
	(in millions)	
Revenue		
Program revenue - Operating grants	\$ 0.2	\$ 0.2
General revenue - State foundation allowance	<u>3.2</u>	<u>3.3</u>
Total revenue	3.4	3.5
Functions/Program Expenses		
Instruction	1.6	1.5
Support services	<u>1.8</u>	<u>1.7</u>
Total functions/program expenses	<u>3.4</u>	<u>3.2</u>
Increase in Net Assets	<u>\$ -</u>	<u>\$ 0.3</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$3,417,046. Certain activities were partially funded from those who benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions (\$157,713). The remaining "public benefit" portion of our governmental activities was paid with \$3,232,345 from the state foundation allowance and \$62,378 from local sources.

The Academy experienced an increase in net assets of \$35,390. The key reason for the change in net assets was an increase in revenues.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the board of directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental fund reported a fund balance of \$95,178, which is an increase of \$38,088 from last year. The primary reasons for the increase are as follows:

In the General Fund, our principal operating fund, the change is mainly due to:

- An increase in federal revenue for categorical programs
- An increase in student pupil count and subsequent increase in state foundation allowance
- A decrease in operational expenditures verses budgeted expenditures

General Fund fund balance is available to fund costs related to allowable school operating purposes.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were insignificant revisions made to the 2004-2005 General Fund original budget. The majority of the revisions were due to a change in function and object codes to adhere to the Michigan School Accounting Manual. Other revisions were a direct result of increased budgeted revenues due to an increase in pupil count, which generated an increase in program costs due to greater actual student enrollment.

The significant variances between the final budget and actual amounts occurred in added needs, general administration, and operations and maintenance. The difference in added needs was due to a 1.0 FTE reduction in staff to match federal funding actually awarded in 2004-2005. The difference in general administration was due to underbudgeting the contractual obligation for management services. The difference in operations and maintenance was due to overbudgeting the building lease. There were no other significant variances between the final budget and actual amounts.

Dove Academy of Detroit

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Academy had \$7,317 invested in capital assets, mostly in furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$2,698, or 3 percent, from last year. This was due to accumulated depreciation expense.

We anticipate no capital additions will be made in 2005-2006. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had no long-term debt. This is consistent with all prior years. The Academy continues to control expenses so that no long-term debt is incurred or carried forward into the next fiscal year.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the Academy's 2005-2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The 2005-2006 budget was adopted in June 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 95 percent of total General Fund revenue is from the foundation allowance. As a result, Academy funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2005-2006 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2005-2006 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. The State currently estimates funds are sufficient to fund the appropriation.

Dove Academy of Detroit

Statement of Net Assets June 30, 2005

	Governmental Activities
Assets	
Cash and investments (Note 3)	\$ 80,907
Due from other governmental units (Note 4)	606,670
Capital assets - Net (Note 5)	7,317
Prepaid expenses	<u>3,600</u>
Total assets	698,494
Liabilities	
Accrued payroll and other liabilities	355,999
State aid anticipation note (Note 7)	<u>240,000</u>
Total liabilities	<u>595,999</u>
Net Assets	
Investment in capital assets - Net of related debt	7,317
Unrestricted	<u>95,178</u>
Total net assets	<u><u>\$ 102,495</u></u>

Dove Academy of Detroit

Statement of Activities Year Ended June 30, 2005

			Governmental Activities
	Expenses	Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets
Functions/Programs			
Primary government - Governmental activities:			
Instruction	\$ 1,660,220	\$ 157,713	\$ (1,502,507)
Support services	1,754,128	-	(1,754,128)
Depreciation (unallocated)	2,698	-	(2,698)
Total governmental activities	<u>\$ 3,417,046</u>	<u>\$ 157,713</u>	(3,259,333)
General revenue - State aid not restricted to specific purposes			3,232,345
Other			<u>62,378</u>
Total general revenue			<u>3,294,723</u>
Change in Net Assets			35,390
Net Assets - Beginning of year			<u>67,105</u>
Net Assets - End of year			<u>\$ 102,495</u>

Dove Academy of Detroit

Governmental Fund Balance Sheet June 30, 2005

	<u>General Fund</u>
Assets	
Cash and investments (Note 3)	\$ 80,907
Due from other governmental units	606,670
Prepaid expenses	<u>3,600</u>
Total assets	<u>\$ 691,177</u>
Liabilities and Fund Balance	
Liabilities	
Accrued payroll and other liabilities	\$ 355,999
State aid anticipation note (Note 7)	<u>240,000</u>
Total liabilities	595,999
Fund Balance - Unreserved - Undesignated - Reported in General Fund	<u>95,178</u>
Total liabilities and fund balance	<u>\$ 691,177</u>

Dove Academy of Detroit

Governmental Fund Reconciliation of the Balance Sheet of Governmental Fund to the Statement of Net Assets Year Ended June 30, 2005

Fund Balance - Governmental Fund \$ 95,178

Amounts reported for governmental activities in the
statement of net assets are different because:

Capital assets used in governmental activities are
not financial resources and are not reported
in the governmental fund:

Cost of the capital assets	\$ 92,239	
Accumulated depreciation	<u>(84,922)</u>	<u>7,317</u>

Net Assets - Governmental Activities \$ 102,495

Dove Academy of Detroit

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance Year Ended June 30, 2005

	<u>General Fund</u>
Revenue	
State sources	\$ 3,232,345
Federal sources	157,713
Local sources	<u>62,378</u>
Total revenue	3,452,436
Expenditures - Current	
Instruction	1,660,220
Support services	<u>1,754,128</u>
Total expenditures	<u>3,414,348</u>
Net Change in Fund Balance	38,088
Fund Balance - Beginning of year	<u>57,090</u>
Fund Balance - End of year	<u><u>\$ 95,178</u></u>

Dove Academy of Detroit

Governmental Fund Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balance - Governmental Fund	\$ 38,088
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation - Depreciation expense	<u>(2,698)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 35,390</u>
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Dove Academy of Detroit

Notes to Financial Statements June 30, 2005

Note I - Summary of Significant Accounting Policies

The accounting policies of Dove Academy of Detroit (the “Academy”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy was formed as a charter school academy pursuant to the Michigan School Code of 1976, as amended by Act No. 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994.

The Academy entered into a contract with Oakland University to charter a public school academy. The contract expires June 30, 2007. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the state constitution. The Oakland University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy’s compliance with the contract and all applicable laws. The Academy pays the Oakland University Board of Trustees 3.0 percent of state aid as administrative fees. The total administrative fees paid for the year ended June 30, 2005 to the Oakland University Board of Trustees were approximately \$96,970.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the Academy. Based on application of the criteria, the Academy does not contain component units.

Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Academy. Governmental activities, which normally are supported by inter-governmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy-wide activities are considered governmental activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. The General Fund is the Academy's only fund.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Academy-wide Financial Statements - The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all unrestricted state aid.

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Academy reports the following major governmental fund:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy.

Assets, Liabilities, and Net Assets or Equity

Cash and Investments - Cash and investments include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - Trade receivables are shown net of an allowance for uncollectible amounts. The Academy considers all accounts receivable to be fully collectible; accordingly, no allowance for uncollectible amounts is recorded.

Capital Assets - Capital assets, which include furniture and other equipment, are reported in the applicable governmental column in the Academy-wide financial statements. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. The Academy does not have infrastructure-type assets.

Furniture and equipment are depreciated using the straight-line method over the following useful lives:

Furniture and other equipment	10 years
Computers	5 years

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Dove Academy of Detroit

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Academy's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America and State law for the General Fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the Academy (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits academies to amend their budgets during the year. The Academy increased/decreased budgeted amounts during the year in a legally permissive manner. Expenditures for general administration exceeded budgeted amounts by \$68,952 due to management fees being budgeted below contractual amounts.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Note 3 - Deposits and Investments

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan; the Academy is allowed to invest in U.S. Treasury or agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority. The Academy has designated one bank for the deposit of its funds, and has not adopted any other formal investment policy.

The Academy's cash and investments are subject to custodial credit risk, which is examined in more detail below:

Dove Academy of Detroit

Notes to Financial Statements June 30, 2005

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy evaluates its depositories and only those with an acceptable risk level are used for the Academy's deposits. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

At year end, the Academy's deposits and investments were reported in the basic financial statements as cash and cash equivalents of \$80,907.

The deposits of the Academy were reflected in the accounts of the financial institution at \$367,443, of which \$100,000 is covered by federal depository insurance.

Note 4 - Due from Other Governmental Units

Due from other governmental units as of year end for the Academy's individual major fund is as follows:

	<u>General Fund</u>
Receivables - Intergovernmental	\$ <u>606,670</u>

Note 5 - Capital Assets

Capital asset activity of the Academy's governmental activities was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Balance June 30, 2005</u>
Capital assets being depreciated - Furniture and equipment	\$ 92,239	\$ -	\$ 92,239
Accumulated depreciation - Furniture and equipment	<u>82,224</u>	<u>2,698</u>	<u>84,922</u>
Net governmental capital assets	<u>\$ 10,015</u>	<u>\$ (2,698)</u>	<u>\$ 7,317</u>

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

Dove Academy of Detroit

Notes to Financial Statements June 30, 2005

Note 6 - Lease Commitments

The Academy leases its facilities from an LLC under common ownership with the owners of the Management Company under an operating lease expiring in June 2011. The Academy's annual lease rate is 20 percent of its total state pupil membership aid for the applicable school year. The Academy is responsible for repairs and maintenance of the facility. The amount expensed under this lease agreement totaled approximately \$659,000 for the year ended June 30, 2005.

Note 7 - State Aid Anticipation Note

On July 1, 2004, Dove Academy of Detroit borrowed \$200,000 on a state aid anticipation note. The note bears interest at 4.01 percent and was due and repaid on June 30, 2005. On September 1, 2004, Dove Academy borrowed an additional \$240,000 on a state aid anticipation note. The note bears interest at 4.01 percent and is due in two installments on July 30 and August 30, 2005.

Note 8 - Management Agreement

The Academy has entered into a management agreement with Schoolhouse Services and Staffing, Inc. (the "Management Company"), a for-profit corporation. The Management Company is responsible for all management, operation, administration, and education of the Academy. All Academy personnel are provided by the Management Company. The total management fee expensed by Dove Academy for the year ended June 30, 2005 approximated \$360,000. The management agreement between the Academy and Schoolhouse Services and Staffing, Inc. was extended to June 30, 2007.

Note 9 - Risk Management

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the Management Company are covered by the insurance held by the Management Company. The Academy has purchased commercial insurance for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage since inception.

Required Supplemental Information

Dove Academy of Detroit

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
Revenue				
State sources	\$ 3,177,983	\$ 3,294,737	\$ 3,232,345	\$ (62,392)
Local sources	-	-	62,378	62,378
Federal sources	150,813	147,482	157,713	10,231
Total revenue	3,328,796	3,442,219	3,452,436	10,217
Expenditures - Current				
Instruction:				
Basic programs	1,428,158	1,434,923	1,415,206	(19,717)
Added needs	187,384	290,250	245,014	(45,236)
Support services:				
Instructional staff	59,992	111,946	107,661	(4,285)
General administration	449,890	468,830	537,782	68,952
School administration	209,048	147,150	139,799	(7,351)
Business services	74,606	66,941	67,765	824
Operation and maintenance	901,625	948,715	889,689	(59,026)
Pupil transportation services	3,000	3,000	2,149	(851)
Central	3,600	8,000	9,283	1,283
Total expenditures	3,317,303	3,479,755	3,414,348	(65,407)
Net Change in Fund Balance	11,493	(37,536)	38,088	75,624
Fund Balance - July 1, 2004	57,090	57,090	57,090	-
Fund Balance - June 30, 2005	<u>\$ 68,583</u>	<u>\$ 19,554</u>	<u>\$ 95,178</u>	<u>\$ 75,624</u>

Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Dove Academy
Detroit, Michigan

We have audited the financial statements of Dove Academy as of and for the year ended June 30, 2005 and have issued our report thereon dated August 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Dove Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dove Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
Dove Academy

This report is intended solely for the information and use of management, the board of directors, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

August 12, 2005